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October 4, 1978 **LETTER 740**

Sept. 22, DJIA 862.44; PTI 927; A-D Ratio –17.12
Sept. 29, DJIA 865.82; PTI 938; A-D Ratio –16.96

THE MARKET: One of the laws of nature is *harmony*. When nature is in harmony, one can feel the flow, the soothing sense that things are working, that "all's right with the world." When dis-harmony takes over, it means that opposing and contradictory forces are upsetting the balance of nature. We see dis-harmony most dramatically in mental disease and more specifically in schizophrenia. Here the person is literally "split," with the opposing forces so stubborn and so far apart that for lack of a better diagnosis, we say the person is insane.

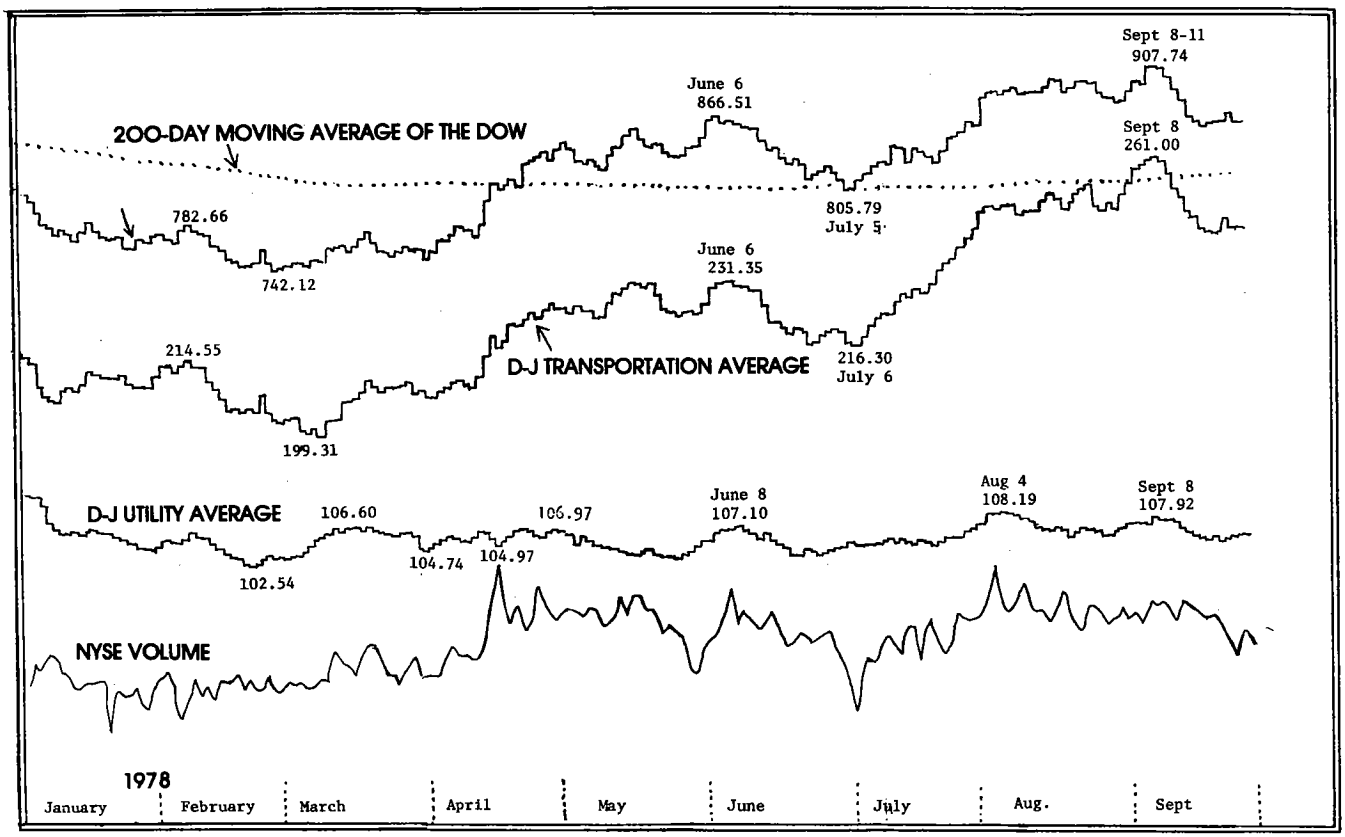
In the markets, the same law of harmony holds true. A market that is "together" and rising with all segments in harmony is a pleasure to watch and even more of a pleasure to be in. But when the normal harmony of the market is disrupted, then technicians say that "a divergence" has appeared. Divergences of a minor kind are commonplace on Wall Street, but the major divergences are both rare and dramatic. I would say that major divergences in the market reflect major splits in the economy or in the prevailing psychology of investors. In general, I don't like market divergences. They make me feel uneasy, nervous, irritated. Worse, they all too often end with sliding or even crashing markets.

In Letter 737 (page 2) I discussed the remarkable *divergence* between the D-J Industrials and Transports. This historic divergence has been in force ever since mid-July, 1976. The divergence evidences itself in a long series of lower peaks for the Dow (1011.21 and 1004.65 in 1976, 941.91 in '77 and 907.74 in '78). Against this series we have a string of higher peaks in the Transports (231.27 in '76, 237.52 and 246.64 in '77 and 261.49 in '78). Divergence usually means that stocks are being distributed, and if so, the extraordinary divergence of the past four years is telling a very unpleasant story.

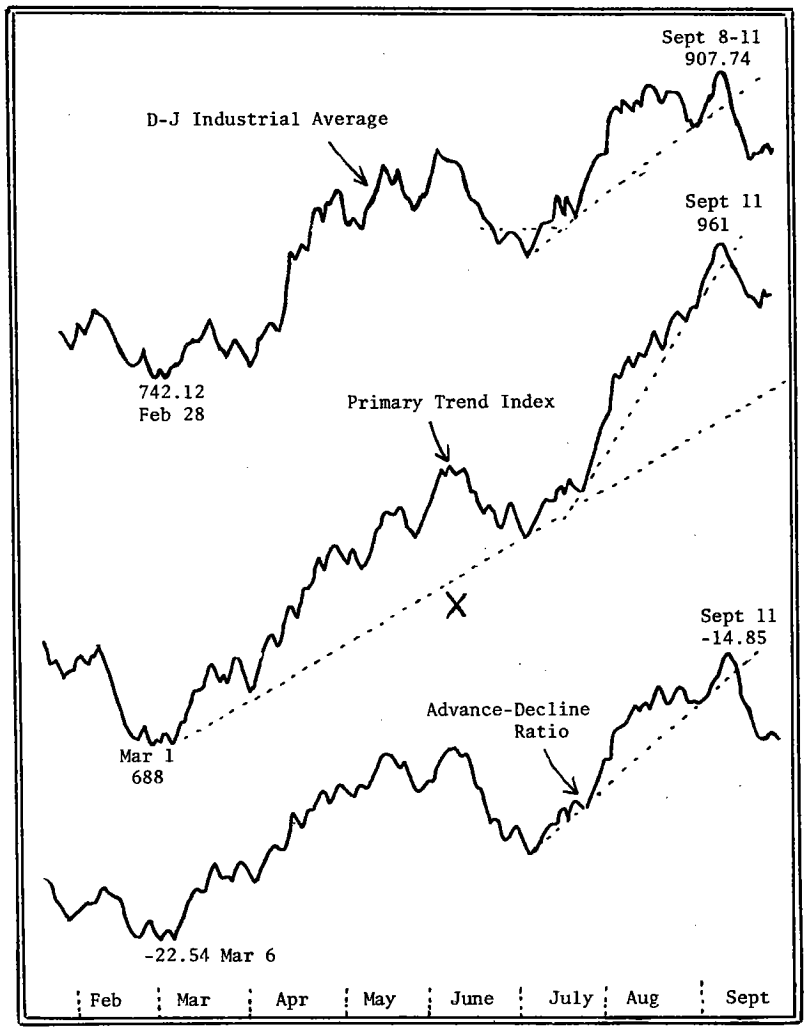
Yet another outstanding divergence has been a feature of this market. Ever since 1976 we have seen a persistent divergence between the Dow and the secondary stocks. This divergence can probably best be seen in the ratio of the S&P Low-Priced Stock Index and the S&P High-Grade Stock Index (see Letter 739 page 6). This ratio is now at its highest level in history. Never has there been such a split between the big corporations and the secondary and tertiary stocks.

Another extraordinary divergence can be seen in the action of the Dow and the margin debt on the NYSE. Normally, the Dow and the margin levels will move up or down together. But the Dow topped out in September, 1976, while margin has continued to climb. Since the 1974 lows, margin debt has risen more than 300%. But the Dow now stands only 49% above its 1974 low (the Dow is also 150 points below its 1976 peak).

What is the meaning of these divergences, why do they exist at all? My feeling is that they are reflecting abnormal conditions in the economy, conditions which are a product of a towering debt structure, high interest rates, a discouraging investment outlook clouded by inflation, and a Government that lives and



operates on the basis of "the three M's," manipulation, meddling and murkiness.



NEAR TERM: What can we say of the short to intermediate trend of the market? Here the picture has not yet clarified itself, but there are many items worth watching. Take the Utility Average, an Average which normally possesses bellwether characteristics. The Utility Average (see page 1 chart) refuses to give hints as to the next direction of the market. On the rise since late-February, the Utilities failed to lead. More recently, despite high interest rates, the money sensitive Utility Average has refused to go down. The range for the Utilities ever since February has been a remarkably narrow 102 to 108. A crack in this "line formation" could provide important evidence of the future trend of the market.

Meanwhile, the Industrial and Transportation Averages broke out above the August highs during early September. Peaks were recorded on September 8 (Industrials at 907.74, Transports at 261.00), whereupon the two Averages turned down. By September 21 both Averages had wiped out all their August-September gains. As of this writing the market awaits a new impulse.

Probably the best hint as to what is coming up will be provided by the primary trend index (PTI). This amalgam of 8 different indices and averages has been one of my most important indicators, and any time I ignore its message, I do so at my peril. The PTI has shown itself to be outstandingly able to cut through the fog and show me what the market is actually doing.

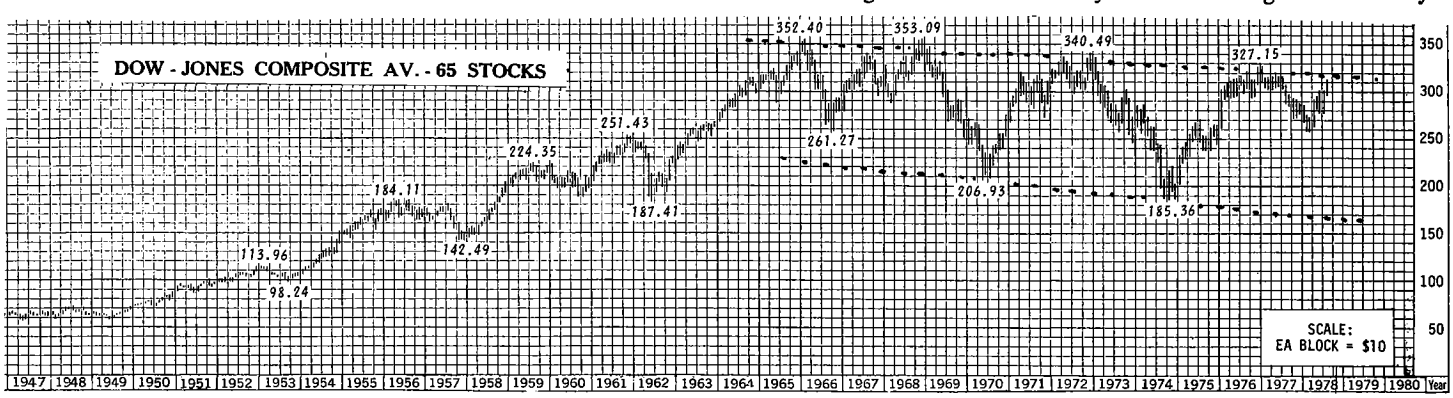
Currently (see chart), the PTI (along with the Dow and the A-D ratio) has broken its short term trendline. But it is the more important intermediate-term trendline extending through the March and July lows (trendline is marked X on the chart) that I am watching. If this trendline holds, I would say that the market will make another try at the recent highs. On the other hand, a breaking of trendline X would almost surely mean that the market had topped out and that we had seen the highs for 1978–and very likely for 1979 as well.

One thing I have learned after 7 years of studying the PTI (which, by the way, is not a long time). The market will only move grudgingly against the trend of the PTI. The PTI's resistance to a market trend will invariably turn the market. By the same token, a persistent trend in the PTI will always draw the market with it. I've never seen this to fail, and that is why I say that trendline X on the chart is a most important market point.

BIG PICTURE: If you look at a profile of the market over the past decade (use any Average you want), you get a picture of stagnation, sideways movement, a series of advances and declines going "straight to nowhere." I include a Horsey monthly chart of the D-J 65 Stock Average to illustrate my point.

Why the extraordinary lack of progress? Why has the stock market moved generally sideways since 1965? Let's try this on for size. Government salaries and transfer payments were 38% as large as private wages in 1965. By 1977 they were (incredibly) 52% as large as all private salaries.

Or take this depressing fact: Federal spending now accounts for 22% of the total GNP. If you add state and local spending you are talking about 40% of total GNP! Now I'll include one more gem: in 1950 one in ten Americans worked for government (local, state, federal). Now one in six Americans work for some branch of government. And if you want to figure how many



Americans work either for the government or in government-related production, the figures get downright dismal. So let's put it this way–the private sector has always supported the public sector. But at this stage of the game, the monkey on the average American's back has turned into a 1,000 pound gorilla. In fact, you can't see the citizen for the gorilla. All this the stock market is aware of. And all this the market is discounting.

There isn't a citizen in the nation who knows how it's all going to end, but one thing is clear. The hottest political "promise" in the country today is the tax cut. The Republicans have embraced the cut-taxes theme, and Mr. Ford is now running around the country with all kinds of threats and promises.

But as I've said many times before, we've passed the point of no return on debt, and cutting taxes at this late stage of the game is simply going to reduce government tax receipts and build bigger deficits. Furthermore, since government (local, state, federal) now accounts for 40% of the total US GNP, if we now cut government spending we're talking about cutting back on the GNP in a major way. The fact is that government has become a paternalistic vampire, and a substantial cut in government spending now practically guarantees a depression. This nation, having allowed government to usurp more and more of the economic pie, is more DEPENDENT on government spending today than ever.

But the consumer is zero'ing in on tax cutting. The fact is that the consumer hates taxes but he loves Government spending. Americans want to keep the candy while getting rid of the candy bills. To show you how this whole tax cutting concept has grown, I thought this clip from *Newsweek* (Sept. 25) presents fascinating possibilities. When the American public gets the bit in their teeth, they can go all out!

A CONSTITUTIONAL CONVENTION ?

The taxpayers' revolt is going national: a call for a constitutional convention to mandate a balanced Federal budget is quietly shaping up as a major issue for the 96th Congress next year. More than a third of the members of the House have already sponsored such proposals, and Speaker Tip O'Neill was advised by a state legislative group last week that the necessary two-thirds of the states may have passed resolutions calling for a convention by as early as next year. The convention would be the first in history and, one Capitol Hill lawyer said last week, "a constitutional can of worms."

I want to present a few questions and answers here, and this foremat allows me to get things off my mind better than any other.

Question: Russell, what do you think of the market action here?

Answer: I feel it's poor but highly informative. I've explained why I think it's poor in many prior Letters. The whole advance from Dow 742.12 (July, 1978) occurred from a far less than oversold base, and I never like that kind of action. Next, the Dow rallied above 900 to 907.74 (Sept. 8 and 11), then reversed to the downside (confirmed by Transports). I don't like technical "fake-outs," which was what we got when the Dow dropped below 900 again.

The whole move from the February lows was accompanied by the most frenzied kind of speculation (see last Letter, page 6) another ominous sign. The Dow halted in roughly the 900 area, the area of two major "speedlines" as documented in Letter 737, page 3. It was bearish that the Dow was not able to rally above the speedlines.

The mechanical Dow Theory bull signal that was so widely acclaimed occurred on August 2 as the Dow pushed above the June 6 high of 866.51. Yet on the September decline the Dow slipped below the 866.51 level. It is most unusual for the Averages to give a "bull signal" and then to see one or both Averages drop below the point where the bull signal took effect. Yet that is what happened.

Now I want to point to the overriding consideration in the market, and if subscribers don't take in another thing in this Letter, I'd like them to understand and absorb this: IT'S BEEN FOUR YEARS since this market produced a major bottom. Since World War II, the stock market has never gone more than four years without producing a major bottom, an historic bottom, a bottom that sticks out on the charts so that future historians can look at the Averages and say, "There, that was the place to buy, brother, that was it!"

Furthermore, it has been two years (since late-1976) since the stock market has produced a true over-sold condition. Yet the odds are that a major over-sold situation will develop at least twice in every two-year span.

Question: Russell, what will you say if this market moves right into 1979 without producing your "four-year bottom" or even your "big annual soldout market."

Answer: If that happens, I would say that the market is MORE DANGEROUS than ever. Look, I'm not playing games with my subscribers. I'm talking about serious management of hard-earned, after-tax money. I've lived in California for 17 years and I've never been to Reno or Vegas (probably some kind of record). I don't like gambling. If I want to give my money away, I'll find a worthy charity. I feel the same way about the stock market. I don't like playing against the probabilities (which is just another form of gambling).

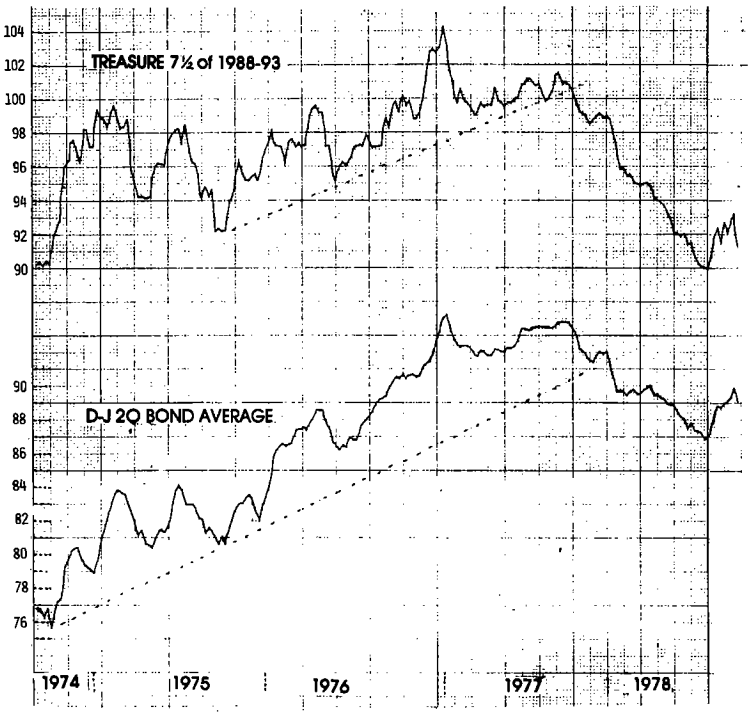
The major item we all require at this time is PATIENCE. The odds with each passing day (based on decades of stock market history) tell me that we're heading for a market slide and bottom of major proportions. But remember this. For the stockholder that concept means **loss**. For the investor who is liquid, that concept spells **opportunity**. And I don't care if we have to wait another year.

Question: You say that the market action is both poor and informative. What do you mean by informative, Russell?

Answer: Well, I note that just about everyone, all the analysts and the economists seem to agree that there will be a mild recession or a slight drop-off in real growth some time during 1979. With this economic expansion already about 44 months old, that's an awfully large consensus saying that we face nothing worse than "a soft landing."

Note the action of the Utility Average on the page 1 chart. The Utilities did not join in the market advance, which was a negative for the market. BUT by the same token the Utilities have not substantially declined, even though *short term* interest rates are hitting new highs for the year. The Utilities are extremely

money-sensitive, and they are particularly sensitive to **long-term** money trends. It should be remembered that long-term interest rates are a function of long-term CAPITAL NEEDS, and to me it is most significant, and I mean VERY SIGNIFICANT, that the Utilities have been resistant to decline in the face of the squeeze in short term money rates.



Another area where I am watching with great interest is the bond market. I am including my chart of the representative long-term Treasury bond, the 7½ of 1988-93. This bond declined dramatically during 1978, hitting its 1974 low of 90 just a few months ago. It then bounced up to 92½ before sinking lower during the past few weeks.

But now look at the action of the D-J 20 Bond Average. The 20 Bonds rose from their 1974 low of just under 76 to a 1977 high of slightly more than 94. More recently the 20 Bond Average dropped to a July, 1978 low of 86.94, following which the bonds rallied approximately 3 points.

But the question in my mind is–why are the 20 Bonds holding so well above their 1974 low and even above their July, 1978 low? One answer may be that bonds anticipate coming capital demands in the money markets. And right now the bond market is very skeptical of coming demands. In other words, the bonds could be discounting rotten business and with it a certain degree of deflation. The Utility Average could be "seeing" the same thing.

Question: But why have the D-J 20 Bonds been acting so much better than the Government bonds?

Answer: The banks, which have had a pressing need for money, have been selling their portfolio of Treasury bonds, and this has been putting particular pressure on the Government market. Aside from that, the only thing I can come up with is that investors think that many corporate bonds are more creditworthy than the bonds of our Government (far-fetched as that may sound).

Question: What do you make of the Fed's boosting the discount rate to 8%, its highest level in history? (The 8% rate was touched only once before, in 1974).

Answer: I believe that the Fed has been smarting under the jibes of European bankers and the many US skeptics who noted that the Fed has been doing more pussyfooting than fighting in the face of inflation and the swooning dollar. So it may be, it may just be, that the Fed will gather courage and put the big squeeze on the money markets (and the economy). But one thing is clear–the squeeze is **not** on yet. If the Fed is really going to do the job, they'll have to cut back on the money aggregates and run interest rates 2% to 3% above the going inflation rate, and that means pushing the bond market to new lows.

So the big question is–will the Fed step on the brakes to the point where the economy feels PAIN? Will the Fed close the money-vice on inflation and allow the economy to sink into recession (with an accompanying rise in unemployment)? Perhaps, but a few things are clear at this time. The first is that Fed Chairman Miller is a Carter man. He was appointed by Carter and he likes to please Carter. The second is that Mr. Carter is "out of it" on the subject of inflation. With the dollar still weak, with inflationary forces still blowing strongly, Carter has again complained that interest rates are "too high" and that he would like to see them lower. As far as fundamental steps taken to halt inflation, this Administration has yet to make its first move.

Question: What do you mean, "the first step," Russell? What steps need to be taken?

Answer: There are only two fundamental steps that can be taken to stop inflation, and the US won't go near either of them. The first is to reverse the trend of Government spending. The second is to cut back on the money supply. Everything else is talk, wishes or fantasy.

Question: I hear what you're saying, but the question I want to know is–how do we operate from here?

Answer: All right, then please follow this scenario. The US trade deficits continue–large or medium-sized, they continue. The budget deficits continue. The dollar (on a long-term basis) continues to be weak. Inflation intensifies as wages and prices wand their way inexorably upwards. The stock market buckles in response to (1) rising interest rates, and (2) increasing signs that productivity in the US is falling and that business profits are being squeezed. By late-1978 or early 1979 it is clear that a recession is about to make its appearance. As the recession gathers strength, capital expenditures slide. Consumers, already over their heads in debt, cut back drastically on their spending. With the demand for loans easing, the bond market is thrown into turmoil.

Question: Why would there be turmoil in the bond markets? Wouldn't a drop in loan demand automatically send the bond market higher?

Answer: Ah, that is the big question. It's the biggest unknown of all, as far as I'm concerned. Ten years ago any drop in demand for loans would have sent the bond market rocketing higher. But the nation is now loaned up, loaned so tight that the implications of a recession are not clear. All those loans have to be serviced. If the economy declines, then tax receipts to the government fall off, bringing about huge new deficits. Recession would also bring about a corporate squeeze, as profits dwindle and debt demands remain. As for the consumer, any increase in unemployment would bring wholesale loan defaults.

So from the bond market's standpoint a recession could represent a dangerous situation, simply because a recession could set off a tremendous rush for money. That money would be needed to service the nation's unbelievable mountain of debt. Remember, profits and incomes may decline, but the COSTS of servicing debt remain.

From a classical economic standpoint a recession in 1979 would be a healthful occurrence in that it would slow inflation. But in an economy as top-heavy with debts as this one, a recession could easily turn into depression and collapse. The Fed and the Administration are now trying to walk the **narrow path** between higher interest rates and recession on the one hand–and glowing business conditions on the other.

Personally, I'm still very skeptical of the Fed's and the Administration's resolve regarding the "big anti-inflation fight." Remember, the interest rate squeeze has been easy so far because business is still humming. It is when business starts to slide and unemployment starts to rise that the Administration and the Fed will be put to the test. And I'm betting that they won't accept much of a squeeze before resorting to re-inflation–and even hyper-inflation.

In all, it is clear that the government is now caught in a never-ending series of stops and starts, with a great deal more monetization and inflation required to get each new "start" going again. Some observers believe that the American economy can withstand one more "inflationary hype" while others feel that the economic seams will split if we go into another recession and then an inflationary attempt at a bail-out.

All this the bond markets are attempting to assess. My own feeling is that the **instability** of the situation has rendered the markets more deceptive, more dangerous and more perplexing than anything we have seen since World War II.

Question: How would our foreign creditors take to a new round of inflation?

Answer: Of the $475 billion outstanding in Treasury debt, foreigners now own $119 billion. Thus, foreign creditors can literally call the tune for US interest rates any time they wish. If the US shows signs of easing up on its so-called anti-inflation stand, foreigners could simply pull out their money, thereby collapsing the US money markets and driving US money rates through the roof. As a matter of fact, foreign central banks cut their holding of US Treasury securities by over $5 billion during the second quarter, and this may have had a lot to do with the Administration's recent frenzy to "do something about inflation."

In the long run, the world will have to return to monetary discipline. Since the net world supply of paper money is increasing astronomically each year, the only salvation will be an ultimate move to provide a gold base to this money. The greater the ocean of paper, the higher the eventual price of gold must be. And that's how I see it from here.

NOTES: Ned Davis (J. C. Bradford & Co.) observes that the August, 1978 data for US commercial banks shows total loans of $718.4 billion and deposits of $929.7 billion (plus investments of $258 billion). The loan to deposit ratio is 77.3%, the second highest reading in US history. To put it another way, the banks are loaned up –and then some. This leaves the system with three possibilities (1) a recession and a lessening of loan demand, (2) more inflationary Fed pumping in an effort to inject more funds into the banking system, (3) higher and higher interest rates as the battle for money continues.

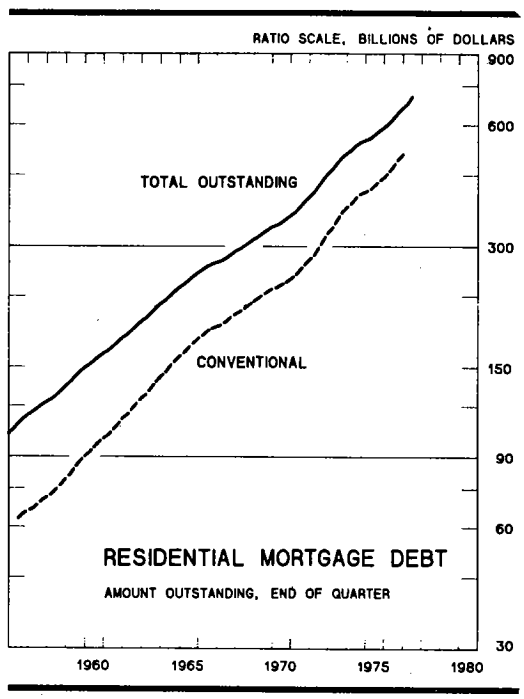
* *

For decades, when asked about the US debt, politicians glibly replied that "we owe it to ourselves." That is not true today. Of the $475 billion in outstanding Treasury debt, about 25% is owed to foreigners. And dollar-owning foreigners want to halt the dollar slide and they want to halt US inflation. One way is for the Fed to raise interest rates until it HURTS. If we won't do it, our foreign creditors will. How will they do it? They simply pull their money out, and the squeeze is on. And this is exactly what has been happening. The Fed (in case you didn't know it) has not been pressing the tight money button. The Fed has simply been following the money market up (to higher interest rates).

* *

A very smart subscriber (WFH of Greensburg,KY) writes that I am concentrating too much on public debt, when it is private debt in the US that is going absolutely wild. For instance, in 1945 the private debt was 34% of the total of all US debt. In 1955 it rose to 58%, in 1965 it went to 70%, in 1975 private debt was 75% of all debt! Or to put it another way, private debt is now 16 times as high it was in 1945, while public debt (although huge) is only 3.1 times as high as it was in 1945.

The subscriber from Kentucky is absolutely right. Look at this chart from the Federal Reserve chart book. It shows mortgage



debt rising at an exponential rate. The trend is up and up but there is no way, NO WAY, this trend can be sustained. Since this is ratio-scaled chart paper, note that the mortgage debt has to rise at a wildly accelerating rate to hold to the trend. All of which shows why the US is in such a horrendous bind at this time. We have to run faster and faster to hold to the trend. That means more and more money is needed. And that means higher and higher monetization and debt. Which means higher and higher interest rates. Which in turn means that we move ever nearer to the big bust.

* *

Nothing's easy. Take San Diego, a place that is widely considered to have the finest weather and living conditions in the nation. We usually have 10 inches of rain a year here (semi arid climate). But this year we had the heaviest rains in 26 years (January

through May) with floods and mud slides. Then we had a fire which burned down the famous San Diego Aero-Space Museum. Next, a fire burned down the equally famous Old Globe Theatre in San Diego. That same day San Diego County suffered its worst blackout (electrical) in history. Over the past few weeks we've had a miserable heat wave with temperatures into the 100's every day. Then last week a PSA plane crashed over San Diego (hitting a Cessna) and killed 150 people, making it the worst US air disaster in history.

Fortunately I live only three blocks from the world's biggest swimming pool, the Pacific Ocean. When my brain is in danger of becoming scrambled from the heat or other problems, I trot down the three blocks and hurl myself into the ocean. I emerge from these Baptisms glowing and ready to face the world–and the markets.

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I don't know how many of you have seen Howard Ruff's "Ruff House" program on TV. If you haven't, you should. Howard is doing a tremendous amount towards getting the truth out to the public–the truth about a lot of things including inflation and hard money. Howard is one of those guys who seems to do everything right and successfully. I wouldn't be surprised if I heard he hopped up Mt. Everest on one foot–blindfolded!

RYAN: About seven months ago (March 7) I announced to an unbelieving world that Ryan Robert Russell had arrived. "What did you do?" asked some. "Why'd you do it?" cried others. But happily, the great majority sent congratulations, and I received literally hundreds of requests from well wishing subscribers for more news of "Trip" (a nickname penned by Ryan's Uncle John–meaning triple R). At any rate, here is a picture of Ryan taken a week ago. He is atop Sherman, our 200-lb. Mastiff Guard dog (actual AKC name, Sherman Tank of Willowledge). Sherman and Ryan are wild about each other, and I can assure you that no one else that I know of has dared to climb on Sherman's back. Currently, Ryan's greatest interest is dialing the telephone. We think he's trying to call Godfather Harry Schultz, but Ryan won't really say.

GOLD: Two interesting items appeared last week. First, S. Africa has a new Prime Minister, Mr. Pieter Botha. Botha is leader of the very tough and facist Nationalist Party. I consider Botha a minus for the long-term outlook of S. Africa. There is no way that a minority (in terms of population) can keep a majority underfoot, and I don't care what the right or the wrong of the case is. In this day and age of clandestine warfare, terrorism and violence, Botha will hasten the crisis. I just can't see the status quo remaining in force in S. Africa. Therefore, I have not recommended and do not recommend buying the S.African gold shares.

On the US side of the pond, Senator Jesse Helms (N.C.) is trying to introduce a gold wafer (tiny ingot) which would be sold by the US Government (I guess the gold medallion is out, because this medallion would look too much like a gold coin, and the US is intent on proving that gold is not real money). The insane farce goes on, however, in that our gold (yours and mine) is auctioned off monthly (mostly to foreigners) while we US citizens are not given the opportunity to buy our own gold in coin form.

The US wafer would, nevertheless, be a huge plus in that the US would be saying to its citizens, "OK, buy gold, buy US Treasury gold in wafer form." Once a policy of selling US gold to US citizens was established, it would be rather hard for the US to turn around and confiscate that gold. At any rate, the concept of a future gold confiscation (which worries some people) seems more and more remote to me.

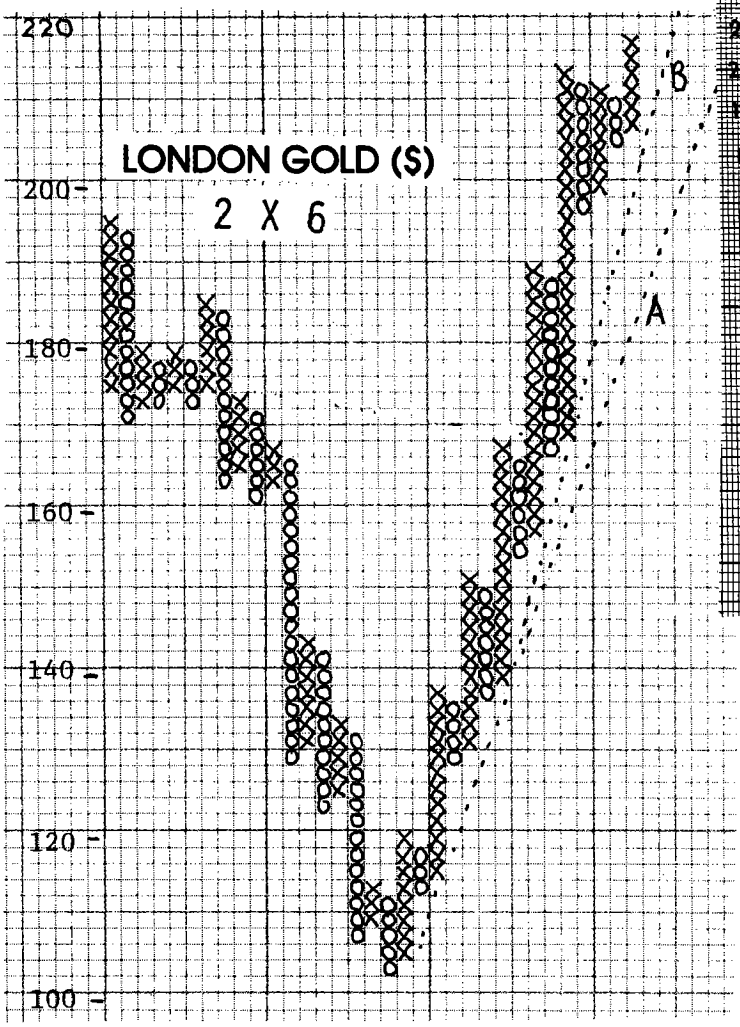
A number of news items emerged recently, any one of which could have knocked gold down if it were technically weak. These items are (1) the Egyptian-Israeli peace conference, (2) the smaller than expected trade deficit in August, (3) the step up in US gold auctions, (4) the rally in the dollar, and (5) the Administration's promises of lowered budget deficits. Often an item's reaction to news is more important than the news itself (which is the case here with gold).

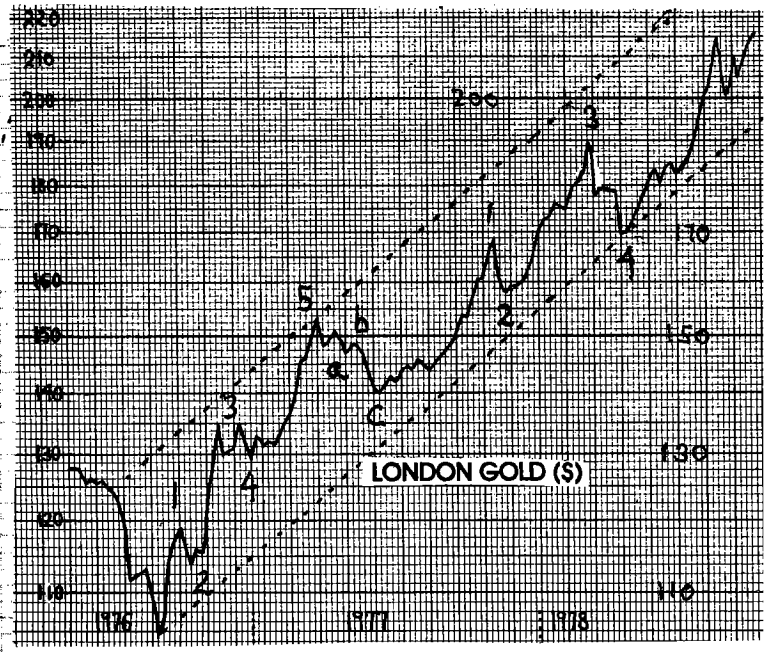
Technically, gold continues to act well. My 2X6 point & figure chart (page 7) shows every six point advance or decline in London gold with each box representing 2 points. This long term chart of gold shows the tremendous power and thrust of the gold move since late-1976.

I have drawn two trendlines on the P&F chart, and each should offer strong support in the event of a decline. It is a sign of strength that gold has rallied so far above the shallower trendline (A on chart), since trendline A is the major support line from the 1976 bottom. Significantly, very significantly, the steeper trendline (b) now intersects the price movement at **above** 200. I have said before that I do not think we will in our lifetimes see "under 200" gold again. I could be wrong, but that is my thinking.

On the chart the latest consolidation occupies five rows of X's and O's horizontally. It is most interesting to me that this is more backing and filling that has been seen at any time since the 1976 low! I believe that these five rows across represent bullion's strong consolidation ABOVE 200 and well above major trendline A.

My daily chart of gold and the gold stock average (GSA) is also instructive. In early September (X on chart) GSA recorded a new high, but bullion would not confirm. The two then turned down, but at Y on the chart the reaction halted. A new attack on the highs followed, and in late-September both gold and GSA hit new highs again.



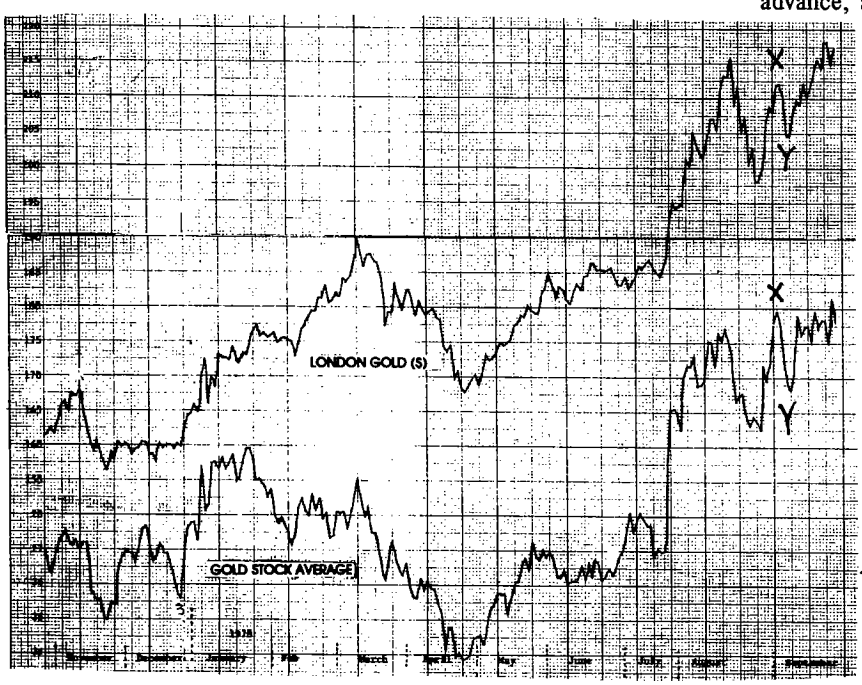


Nevertheless, the action since the August highs has been "nervous" and "anxious." but what I have noticed is that gold and GSA act very well on the downside. At no time have the late-August lows in either item been endangered, and each decline low since then has been at a higher level than the preceding.

This is a sign of accumulation, and I would expect gold and GSA to continue pushing to higher levels. At some time ahead, the plodding advance which we are now witnessing should turn "emotional." At that time gold could make up for lost time and gain as much in a few weeks as it has gained in the past few months.

I have included a weekly chart of gold bullion which is drawn to ratio scale. Thus, the chart deals with percentages of advance or decline, and you will note that a rise from 100 to 200 takes up the same vertical distance as a rise from 150 to 300. As long as the price movement holds above a rising trendline on ratio scale you can say that the rate of growth is being maintained.

Gold has been rising within the two trendlines which make up the **channel** on the chart. I have numbered the movements in Elliott terms according to my interpretation. We completed a 1-2-3-4-5 rise during 1976-77. An a-b-c correction took gold down to 140 in early 1977. The latest rise is also a 1-2-3-4-5 advance, and by my reckoning gold is still in leg 5. So far, this has been a very subdued 5th leg, even though it has carried from 169 to 219. My guess is that the 5th leg is extending, and that it will become emotional and speculative before it's over. The top of the upper channel line intersects the price at about 250, and it wouldn't surprise me to see that figure touched or surpassed before the next six months are out. Somewhere along the line in this 5th leg, gold should start to "bubble and boil." But it will do so on its own good time.



LATE NOTES: Notice on the top of page 1 that between Sept. 22 and 29 the Dow gained only 3 points but the PTI gained 11 points. The superior action on the part of the PTI is a plus for the market, and I would expect another rally to test the 880-900 Dow area. The short term, however, is considerably more positive than the long term. The market is going to "try" to get through '78 without major trouble. I don't think it's going to make it.

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